



INDONESIA: ECONOMIC AND FINANCIAL HIGHLIGHTS APRIL 2005

Summary:

- April 2005 inflation fell slightly to 8.1% year-on-year (YoY) after a sharp rise in March of 8.8%.
- Bank Indonesia (BI) intervened in foreign exchange markets and took other policy actions in response to a sharp depreciation in the rupiah-dollar rate.
- BI also raised short-term interest rates by 26 basis points in April 2005 (from 7.44 to 7.70%).
- The Government of Indonesia (GOI) sold Rp 3 trillion (USD 310 million) in two-year domestic bonds on April 26 at 9.77%.
- Indonesia's largest bank, state-owned Bank Mandiri, is under investigation for questionable lending practices.
- National and international rating agencies upgraded the ratings of three large domestic banks (Danamon, Bank Internasional Indonesia, and Bank Tabungan Negara).
- Indonesian banks are forming a syndicate to mitigate long-term lending risk for infrastructure projects.
- Citing poor performance, the GOI replaced the senior management of Indonesia's largest pension and social security organization, Jamsostek, which manages USD 2.8 billion in assets.
- Indonesia's state asset management company sold the GOI's remaining stake in Bank Niaga, Indonesia's sixth largest domestic bank in terms of assets.
- Insurance companies formed a consortium to insure the assets of state-owned companies in the energy and other sectors.

Inflation Eases Slightly in April

On May 2, the Central Bureau of Statistics (BPS) announced April Consumer Price Inflation (CPI) of 0.3%, month-on-month (MoM). CPI inflation for the January – April quarter was 3.5%, and YoY inflation was 8.1%. Thirty-two of 45 cities experienced inflation, with the highest inflation in tsunami-damaged Banda Aceh (4.5% MoM). Bank Indonesia (BI) Senior Deputy Governor Miranda Goeltom stated that BI's tight monetary policy will keep Indonesia's inflation below 7% in 2005. The price of nearly all major categories of goods continued to rise.

Table 1: CPI Components

Components	Inflation (% increase over previous month)
Housing, water, electricity, oil/gas	88.2
Food, beverages, tobacco, cigarettes	61.5
Food ingredients	58.8
Transportation, communication, financial services	42.3
Clothing	29.2
Health	21.3
Education, recreation, sport	14.8

Source: Central Bureau of Statistics

Rupiah Weakens Against Dollar

The Indonesian rupiah (Rp) weakened against the dollar in April, hitting its lowest point of 9,720/USD on April 25. (The Rp/USD rate was 9,290 in December 2004.) Analysts cited several factors as contributing to the rupiah's volatility including soaring international oil prices, which increased the demand for dollars by state-owned oil company Pertamina to purchase imported oil, high import growth (28% YoY in the first quarter of 2005), speculation by foreign exchange traders, and technical weaknesses in the Rp/USD market. Following the rupiah's April 25 depreciation, BI announced several steps to stabilize the currency including:

- issuing a circular reducing the maximum level of bank net open positions from 30 to 20% of bank capital;
- increasing SBI interest rate by 15 to 25 basis points;
- increasing minimum statutory reserve requirement for banks at the central bank;
- creating currency swap instruments as a mechanism to meet FX demand within 3 to 6 months;
- raising the maximum interest rate limit for government-guaranteed USD-denominated bank deposits from 0.65% to 2%.

Bank Indonesia Raises Interest Rates

At its April 6 auction, Bank Indonesia raised the rate on its one-month benchmark central bank certificate (SBI) from 7.44 to 7.53%. The three-month SBI rate increased from 7.31 to 7.51%. On April 20, BI increased the rates on one-month SBI again, from 7.53 to 7.70. The increase was mainly a response to macroeconomic conditions, and to higher inflation in March. Nonetheless, BI Senior Deputy Governor Miranda Goeltom told the press she believes the 2005 inflation will not exceed 7%. Some analysts believe that the BI is raising interest rates too slowly to counter the inflationary impact of higher fuel prices. They believe BI would have to raise rates again in the near future, possibly up to 8%.

On April 28, BI announced that effective May 1, it would increase the maximum interest rate limit for government-guaranteed USD-denominated bank deposits from 0.65% to 2%. This policy aims to create an incentive for depositors to maintain U.S. dollar accounts in Indonesia, thus reducing capital outflow. BI also increased the interest rate on rupiah-denominated guaranteed deposits (see table below). This is the first increase in nine months. (Note: BI set up the maximum rate limit to reduce the government's liability in case of a bank failure.)

Table 2: Guaranteed-Deposit Interest Rate ¹

Term ²	April 2005	July 2004	April 2004
1-month	7.31	7.25	6.11
3-month	7.36	7.30	6.14
6-month	7.41	7.35	6.16
12-month	7.56	7.50	6.18
24-month	7.86	7.80	6.11

Source: Bank Indonesia

(1) In percentage, for rupiah-denominated account

(2) Length of time deposit in months

Bank Deposit Rates Likely to Rise

In response to rising SBI interest rates, Bank Negara Indonesia President Director and State-Owned Banks Association's Chairman Sigit Pramono said that banks would also likely raise interest rates offered for bank deposits. Currently rates remain well below the BI maximum (see table below). With a current inflation rate of 8%, depositors have a negative real return on their savings. However, the bankers association did not anticipate an increase in the interest rate for loans in the near term, despite the increase in BI's benchmark SBI rate.

Table 3: Time Deposit Interest Rates ¹

	1 Month Rp/USD	3 Month Rp/USD	6 Month Rp/USD	12 Month Rp/USD
Citibank	4.50/0.10	4.50/0.10	4.50/0.30	4.50/0.30
ABN Amro	4.00/0.30	4.00/0.30	4.00/0.35	4.00/0.35
BRI	6.00/0.65	6.00/0.65	6.00/0.65	6.00/0.65
Mandiri	5.75/0.65	5.75/0.65	5.75/0.65	5.75/0.65
BNI	6.50/0.65	6.50/0.65	6.50/0.65	6.50/0.65
Danamon	5.75/0.65	5.75/0.65	5.75/0.65	5.75/0.65
BCA	5.50/0.65	5.50/0.65	6.25/0.65	6.50/0.65
Permata	5.50/0.65	5.50/0.65	6.00/0.65	6.00/0.65
BII	5.75/0.65	5.85/0.65	5.85/0.65	6.00/0.65
Panin	6.00/0.50	6.00/0.50	6.00/0.50	6.00/0.50
Lippo	5.50/0.65	5.50/0.65	5.50/0.65	5.50/0.65
Niaga	6.25/0.65	650/0.65	6.50/0.65	6.75/0.65

Source: Investor Daily

(1) As of April 7, 2005

GOI Sells Two-Year Domestic Bonds

On April 26, the GOI Rp 3 trillion (USD 310 million) of two-year domestic bonds at a 9.77% yield. The bond issuance was 164% oversubscribed. Ministry of Finance's Director General for Treasury Mulia Nasution stated that the bond issuance was in response to market demand for short-term government bonds, not due to any cash flow problems.

Bank Mandiri Under Investigation

State-owned Bank Mandiri is Indonesia's largest bank with approximately 25% market share. In April 2005, members of Parliament's Commission for Banking and Finance (Commission XI) urged the Minister for State-Owned Enterprises to shake up Mandiri's senior management, due to a large number of non-performing loans (NPLs) and questionable lending practices. The Supreme Court and Supreme Audit Board (BPK) are currently investigating Mandiri and 28 corporate borrowers involved in irregularities totaling Rp one trillion (USD 103 million).

Mandiri wrote off Rp 21 trillion (USD 2.2 billion) of NPLs earlier in 2005. In response, Parliament has required Mandiri to obtain its approval for an additional Rp 2 trillion (USD 206 million) of NPLs it hopes to write off. Mandiri management claims its net NPL/assets ratio was only 1.6% as of December 2004, much lower than BI's maximum of 5%. However, many analysts believe the real level of NPLs at Mandiri is much higher. Standard and Poor's current rating for Mandiri's bonds is BB minus. On April 28, President Susilo Bambang Yudhoyono stated that, "The current investigation of Mandiri does necessarily not reflect a worsening performance of the bank. The problem is on the management, not the bank itself."

State Minister for State-Owned Enterprises Sugiharto also asked BPK to investigate a transfer request of Rp 1 trillion (USD 103 million) of deposits from a Bank Mandiri escrow account owned by the near-defunct car manufacturer Timor Putra Nasional (TPN). TPN, owned by former president Soeharto's son Tommy Soeharto, received USD 690 million in loans from four state-owned and 12 private banks in 1997, USD 467 million of which remains unpaid. TPN's also has an unpaid tax bill of approximately Rp 3.5 trillion (USD 360 million). In addition to the BPK, the Ministry of Finance and the Indonesian Police are also investigating the case.

New Loans to GOI

On April 11, BI and the International Finance Cooperation (IFC) signed a Memorandum of Understanding (MOU) on a USD 100 million loan to support Indonesian small and medium enterprises (SMEs). BI will distribute the funds to several domestic banks for channeling to SMEs. Currently there are 640,000 small enterprises and 70,000 medium enterprises in Indonesia. The State Minister for Cooperatives and SMEs also submitted a

proposal to the Asia Pacific Economic Cooperation (APEC) forum for a Rp 1.5 billion (USD 155,000) loan for tsunami assistance.

Domestic Banks Get Higher Ratings

On April 11, the international ratings firm Moody's upgraded Bank Danamon's subordinated debt to B2 from B3. On April 13, Standard and Poor's rated Bank Internasional Indonesia (BII)'s proposed subordinated debt at B minus. The Singaporean government-owned holding company Temasek Holdings is the controlling shareholder of both banks. The Indonesian rating agency Pefindo raised its rating on three issues of state-owned Bank Tabungan Negara's (BTN) bonds. Pefindo stated that the improved ratings reflect the strength of BTN's mortgage business, despite a mismatch in maturity between the bank's long-term housing loan portfolio and short-term deposits. BTN's total assets as of December 2004 were Rp. 26.7 trillion (USD 2.8 billion).

Infrastructure Financing Update

On April 21, 13 domestic banks formed a syndicate to focus on infrastructure financing. BNI President Director Pramono told the press that he hopes the syndicate will reduce the risk of long-term lending to infrastructure projects. The banking community believes that more syndicates are needed, although Pramono admitted that some banks are still reluctant to join due to the problems in restructuring syndicated loans after the financial crisis. Potential projects for consideration by the syndicate include USD 200 million for electricity generation and USD 160 million for oil exploration projects. On April 14, Coordinating Minister for the Economy Aburizal Bakrie announced that the GOI plans to issue infrastructure bonds. Indonesia estimates it needs approximately USD 150 billion for the next five years for infrastructure development.

Management Changes at Largest Pension Organization

On April 4, SOE Minister Sugiharto installed a new Board of Directors at state-owned Jamsostek, Indonesia's largest pension fund with Rp 26 trillion (USD 2.8 billion) under management. Sugiharto cited Jamsostek's deteriorating performance, noting the company's overdue unpaid tax as of December 2004 was Rp 107.5 billion or USD 11.3 million. Jamsostek had been criticized in the press for purchasing Rp 100 billion (USD 11 million) of bonds from Bank Global in 2003, which became worthless when the bank collapsed in December 2004. Sugiharto also changed the Board of Commissioners at state-owned oil company Pertamina earlier this year, as well as the management at state-owned airline Garuda Indonesia. An independent group of legal experts criticized the Government's replacement of the Jamsostek management, saying the move was abrupt and did not follow proper procedures.

Other Corporate and Bank News

On April 20, Asset Management Company (PPA) sold the government's remaining 5.22% stake in Bank Niaga, Indonesia's sixth largest bank by assets. PPA also

hired new financial advisors to expedite the divestment of the GOI's remaining 5.02% share in Bank Central Asia (BCA). PPA plans to sell the BCA shares for Rp 3,700 – Rp 3,775 per share, which would net the GOI Rp 2.3 trillion, or USD 240 million.

On April 5, Indonesian energy and mining company Medco Energy International (Medco) announced its plan to divest approximately 40% of its shares through a secondary offering on the London Stock Exchange. Medco stated it will use part of the money raised to repay a USD 400 million debt to United Overseas Bank of Singapore. The remaining money will be invested in oil and gas exploration, and business expansion, including plans for establishing a USD 400 million cement factory in East Java. Medco is one of the top listed companies on the Jakarta Stock Exchange.

Corporate Bond Issuances Postponed

In April 2005, a number of Indonesian banks or securities firms postponed planned issuances of corporate bonds, generally citing unfavorable market conditions. Banks or securities firms postponing bond issuances include the following:

- On April 19, Trimegah Securities announced the postponement of a planned Rp 300 billion (USD 30 million) bond issuance. Trimegah claimed that the large redemption of mutual fund shares during March and April had had only a limited impact on the company's managed funds. Trimegah is one of the largest securities companies in Indonesia and manages approximately 11% of Indonesia's mutual funds.
- On April 19, local bank Bank NISP postponed the issuance of Rp 750 billion (USD 77 million) of bonds. In addition to unfavorable market conditions, NISP also cited recent changes in its shareholder composition. In February 2005 Overseas Chinese Banking Corporation Ltd (OCBC) acquired 28.5% of NISP's shares, valued at Rp 1.1 trillion (USD 110 million).
- Bank Danamon Indonesia (Danamon) postponed a Rp 2.5 trillion (USD 260 million) bond issuance on April 14.
- Bank Internasional Indonesia (BII) postponed the issuance of USD 200 million subordinated debt, also on April 14. BII needs to increase its Capital Adequacy Ratio (CAR) in order to acquire a 75% stake in leasing company WOM Finance.
- Bank Niaga (USD 100 million) also postponed a planned issuance of subordinated debt.

On April 4, automotive leasing company Indomobil Finance announced its plan to issue Rp 600 billion (USD 62 million) bonds in June. Indomobil Group wants to raise Rp 2.5 trillion (USD 260 million) through bond issuances this year.

Insurance Update

On April 20–21, the Insurance Association held an “Indonesia Insurance Summit 2005” in which industry representatives called for an “Insurance Industry Architecture” to develop the industry and increase its client base. The latest data shows that the total assets of Indonesia’s insurance industry are equivalent to only 4% of GDP, compared to Malaysia’s 21% or Singapore’s 38%. Only 2% of Indonesia’s population have life insurance.

During the summit, 40 insurance companies agreed to form a consortium called “Insurance Industry Development for Indonesia Power.” Indonesia Power is a subsidiary of the state-owned electricity company PLN. The consortium will insure Indonesia Power’s USD 7.5 billion in assets. Domestic insurance companies currently insure only 7.5% of the energy and power sector. State-owned electricity company PLN will also purchase more domestic insurance to lead by example, and the insurance industry hopes other SOEs will take similar action. Total assets of the Indonesian insurance industry in 2004 were Rp 118 trillion, an increase of 25.5% compared to 2003.

Selected Economic, Monetary & Financial Statistics

	Jan 05	Feb 05	Mar 05	Apr 05
CPI Inflation (YoY)	7.32	7.15	8.81	8.12
CPI Inflation (MoM)	1.43	1.26	1.91	0.34
Rp/USD Exchange rate ¹	9,155	9,265	9,510	9,570
30-day SBI Interest Rate ²	7.42	7.42	7.44	7.70
Foreign reserves ³	26.01	36.54	36.03	37.32
JSX Composite Index	1045.4	1073.8	1080.2	1036.2
JSX Trans Volume ⁴	2.55	2.02	2.98	
Exports (USD billion)	6.13	6.38	7.25	
% Change (YoY)	21.84	30.13	42.95	
Import (USD billion)	4.01	3.98	4.98	
% Change (YoY)	19.81	18.69	59.11	
Trade Balance ⁵	2.12	2.40	2.27	

Source: Bank Indonesia, BPS

(1) Rp/USD, end of period

(2) End of period

(3) USD billions, end of period

(4) Jakarta Stock Exchange average daily transaction volume, in billions of shares

(5) USD billions

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